American Farmers' Need for Capital

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THE American farmer is too generally thought of wholly as a laborer. He is both a laborer and a capitalist. The returns from capital invested in the farm business are nearly equal to those from his labor. The average investment per farm according to the 1910 Census is $6,444 which, if considered on the basis of 5 per cent, would yield an income of $322. Investigations by the several State Agricultural Colleges and by the U. S. Department of Agriculture have shown that the average annual labor income derived by the farmer is from $300 to $500 depending upon the region and the general conditions covering the particular area. In addition to this the farmer has the use of the farm house to live in and those products which the farm furnishes towards his family living. The needs of the American farmer in the way of capital have never been adequately understood and in most cases he has been left to get along with what money he could secure either by unfavorable terms on mortgages, or by paying high interest rates on short term loans.

Capital Invested in American Farms

Table I shows the total value of farm property in the United States in 1910 and its distribution in the way of land, buildings, equipment, and live stock. The increase in amount from 1900 to 1910 is 100.5 per cent, the increase varying from 118.1 per cent in land to 60.1 per cent in live stock.

The forthcoming Census will undoubtedly show a still greater increase in all forms of farm property. It would not be surprising if the total reached $100,000,000,000 in farm property in the United States in 1920, a certain percentage of which would be due to inflated or depreciated currency values existing at this time and the consequent inflation in land values in some parts of the country.

The manner in which the farmer has his capital invested varies according to the kind of farming and the land values prevailing in a particular region. For instance in the central or corn belt states where corn, small grain, and hay are the prevailing crops, and where live

Table I

Value of Farm Property in the U. S. (1910 Census)

Value of Farm Property in U. S. in 1910		Per cent of total value represented by	Aver. value per farm
Land	$28,475,674,169	69.5	$4,476
Buildings	6,325,451,528	15.4	994
Implements and Machinery	1,265,149,783	3.1	199
Domestic Animals	4,925,173,610	12.0	774
	$40,991,449,090	100.0	$6,444

stock forms only a small part of the business, fully 90 per cent of the total investment is represented by land and buildings, and the balance in equipment, live stock, and supplies. In some of the eastern states, particularly in the grazing areas where land values per acre are comparatively low and where the major business is dairying, not over 60 per cent to 65 per cent of the total investment would be represented by land and buildings while possibly 20 per cent would be represented by live stock. Thus the amount of money in proportion to the total investment that a farmer might borrow on the security of his real estate would vary somewhat according to the region and type of farming followed.

RELATION OF FARM CAPITAL TO INCOME

There is a distinct relation between the amount of capital invested in the farm business and the income received by the farmer. This means that the size of the business has a direct relation to the income. Data given in Table II as shown by Warren in *Farm Management* are for a district in northern Livingston County, New York. It is noted that the average labor income on 87 farms with $5,000 capital or less is $291, whereas the average income of 62 farms with $15,000 to $20,000 capital is $1,001. By labor income is meant the sum received by the farmer after the farm expenses have been paid and after deducting 5 per cent interest on the capital invested. In addition to this he had the use of the farm house and such products as are furnished by the farm. Similar investigations made in the corn belt and the cotton belt indicate the same relation. This is to be expected, for much greater economies of production through more efficient use of men, teams, and machinery are obtained on the larger farms, resulting in greater returns to the farmer for his supervision and labor. Such data indicate the desirability of a farmer having adequate capital commensurate with his ability as a manager. In very few instances do we find a farmer, even of unusual ability, able to make a substantial income through the efforts of labor alone. The small farm intensively cultivated is desirable where labor is cheap and where markets for such products are near at hand.

TABLE II

Capital Related to Labor Income—Farms Operated by Owners—Northern Livingston County, N. Y.

Capital	No. of Farms	Aver. Labor Income
5000 and less	87	$291
5001–7500	80	407
7501–10000	112	480
10001–15000	164	769
15001–20000	62	1001
20001–30000	55	1062
Over 30000	18	1691

The typical American farm is developed on the basis of product per man rather than product per acre, a basis wholly unlike the agriculture of the European and Oriental nations. In the main, the typical American farm has developed since the event of improved machinery and means of transportation. In New England and other eastern states farms that were developed prior to this period and on the hand labor basis have been unable as a rule to meet the competition of the larger and more cheaply operated farms in the central and western states. Only by completely changing the type of farming, in the way of truck crops and dairying to supply the large manu-

facturing centers in New England, has the eastern farmer been able to succeed. Hundreds of thousands of acres of land not suited to such a change have reverted to woodland and timber.

Capital is even more important to the tenant farmer than to the farm owner. Data in Table III, also

TABLE III

Capital Related to Labor Income—Farms Operated by Tenants—Northern Livingston County, N. Y.

Capital of Operator	Number of Farms	Aver. Labor Income
1000 or less	20	$368
1001–2000	65	481
2001–3000	54	610
3001–4000	27	626
4001–5000	16	869
More than 5000	22	1282

taken from Warren's *Farm Management*, show the relation between the tenant's capital and the annual income received for his labor. As the tenant's capital is wholly invested in equipment, live stock, and supplies, he should be able to operate the same sized farm as the farm owner who had approximately four times that capital. We have noted that the farm owner, with from $15,000 to $20,000 invested, received an average income of $1,001, and from Table III we find that tenants with $4,000 to $5,000 receive an income of $869. The addition of $1,000, therefore, to the tenant's capital gives him the possibility of the same increase in income as the addition of from $4,000 to $5,000 to the farm owner's capital. Data from several sources on the returns to landlords indicate only a moderate rate of income, averaging from 3 to 5 per cent, while capital invested in equipment and in the hands of an equally competent operator returns from 15 to 20 per cent. The lesson is plain that a young man with a small amount of capital can do very much better financially by renting than he can by buying, leaving out of account the benefits of home ownership and the prospective rise in land values. As a matter of fact, this is the usual procedure in acquiring a farm: first he works as a hired man; second, as a tenant; and third, acquires a farm of his own. No land should be held continuously for renting purposes, but we need some tenant farms in this country as stepping stones to farm ownership.

USE OF CAPITAL FOR FARM IMPROVEMENTS

One of the greatest handicaps to a farmer who is an efficient manager is the lack of capital to make adequate improvements to his land and buildings. Probably no form of investment pays better returns than tile drainage and yet many farmers have to wait a long period of years before they can accumulate sufficient funds to warrant making such an improvement. If funds were available to competent farmers they would be able to make their farms much more profitable from the very outset instead of waiting the best part of their lives before making these improvements. One of the primary factors of successful farming is the yield of crops. If it takes thirty bushels of corn to pay for growing an acre of corn and the grower obtains thirty-one bushels, he has a margin of profit of one bushel. If by tile drainage he can increase this yield to forty bushels and the added investment increases the cost to only thirty-three bushels, he has a margin of profit seven times as great. In the same way, by the addition of more live stock he is enabled to market his crops to better advantage

and to keep his labor employed throughout the year and increase his profits generally, but so often he is handicapped by insufficient farm improvements in the way of buildings.

Large amounts of capital are needed for the reclamation of farming areas when economic conditions show the need for such work. Bringing new farming areas into use when the opening up of these areas will interfere with the operation of existing farms and make them less profitable is not a sound undertaking. But when the needs of the people and the nation demand an increase in area and additional food products, capital can be very profitably employed in the way of reclamation, drainage, irrigation, and the like. In the past when thinking of reclamation, attention has always been directed to bringing into use new lands generally on the frontiers and far removed from markets. There is a possibility that some of the most profitable reclamation would be in restoring some of the semi-abandoned lands in the eastern and southern states, lands which are desirably situated as regards highways, transportation, and markets, but which are temporarily out of the field of production by reason of misuse or mismanagement during some period in the past. For instance, the addition of a ton of limestone and a certain amount of tile drainage on many hill farms in southern New York and northern Pennsylvania would work wonders towards putting such lands on a profitable paying basis.

FORMS OF CAPITAL NEEDED BY FARMERS

There are three distinct forms or types of loans needed by farmers. First, *the long term or mortgage loan* secured by real estate; second, *a shorter time loan or second mortgage*, based partly upon real estate and partly upon personal property; third, *short term, or crop loans*. Funds for the first type of loan have been supplied through a great many agencies and by private investors. Today, the Federal Land Banks, are adequately meeting the needs of farmers for this type of loan and on a basis that is most advantageous to the borrower. The Land Bank loan is made at a low rate of interest, and has a long time for repayment, as worked out through the amortization plan. The success of the Federal Land Banks in the past two years is the best proof of the soundness of the system and the way they are meeting the needs of farmers for long time mortgage loans. The act should be amended to permit a maximum loan of $25,000 instead of $10,000 to one borrower, for at present the latter figure is inadequate even for the two man farm in most agricultural regions. The law under which the Federal Land Banks operate permits a maximum loan of only 50 per cent of the appraised value of the land and 20 per cent of the value of the buildings. Although this is a most desirable feature of the Farm Loan Act, assuring as it does a high degree of safety and resulting in a low rate of interest, yet the Farm Loan Act does not meet the needs of the young man with limited capital who wishes to begin farming. Such a young man usually needs additional funds based on the remaining security of the farm and oftentimes upon personal property in the form of live stock and equipment which he himself may own. For instance, a farmer buys a farm completely equipped for $12,000, of which $8,000 represents the value of land and buildings. He may have $4,000 in cash

which he uses to pay for the personal property in the form of live stock, machinery, horses, etc. He is able to secure from the Land Bank, a loan of about $4,000 or $4,500 as first mortgage on the farm, valued at $8,000. He still is short the $3,500 or $4,000 necessary to complete the purchase. In some instances the seller is willing to take back a second mortgage for this amount. In other cases very capable young men are unable to finance a farm by reason of having no way to obtain the funds for this second mortgage which would be secured partly by the farm itself and partly by the personal property which the borrower owns. This second mortgage will carry a higher interest rate and will be repaid in larger installments than the first mortgage. When given by a responsible party, experienced in the farm business, it is many times almost as good a loan as the first mortgage. This second mortgage, however, is not of the same nature as the first mortgage loan for an essential part of its security depends upon the integrity and management of the borrower. Although the personality of the applicant is an important feature, yet the Federal Land Bank must primarily consider the value of the farm, in view of the length of time that the loan is allowed to run; the personal element must be largely discounted for the farm may change hands several times before the mortgage is appreciably reduced by payments. There are difficulties in the way of national legislation which will provide funds for these second mortgages. They partake too much of a local character and must be handled by an agency which is in active and close touch with the borrower at all times. There is a possibility that as farmers become better organized and as all their coöperative interests become centered through the Farm Bureaus some system of providing funds on second mortgages may be evolved.

The third type of loan needed by the farmer is a short term or crop loan, usually for three months or six, or even a year. Such loans are based largely upon the integrity and ability of the borrower and being of a local character are almost entirely a function of the local banks. In the strictly agricultural regions local financial institutions are meeting the needs of farmers along this line. In those districts where manufacturing and industrial agencies play an important part the amount of funds available for the farmer for these short term loans is exceedingly limited. Moreover, it is often the young man whose ability and integrity may be of the best but who on account of not having established himself in the region is unable to secure this short term credit, who is in the greatest need of it. These short term loans should not have the privilege of a long period of repayment for they are made primarily to pay current expenses. If a farmer cannot meet such obligations at the end of each year the chances are that he is unsuccessful in his management. The short term credit to the farmer must be made by an agency which comes in contact with the borrower personally and who can watch his daily operations. The usual procedure in securing these short term credits has been for the farmer to give the bank a note with one or more endorsements. Such practice is undesirable in many instances. Since the farmer has become an investor in government securities he is in a position to use these as collateral on a promissory note for short

time loans. This practice will encourage thrift on the part of the farmer to save and be able to purchase Liberty Bonds and other government securities merely for the sake of having such collateral at hand when he needs a few hundred dollars for a short period in his business. In this way he will not need to bother his neighbors or his friends by asking them to sign his note and he will immeasurably improve his credit by such a procedure.